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SUBJECT: U.S.-UKRAINE ENERGY SECURITY WORKING GROUP

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Sensitive but unclassified.

11. (SBU) Summary: Ukraine welcomes the opportunity to discuss a broad range of energy-related issues with Ambassador Morningstar and DOE co-hosts at the upcoming Energy Security Working Group meeting, tentatively scheduled for October 28. Minister of Foreign Affairs Ambassador-at-Large for Energy Security, Viacheslav Kniazhnytskyi, suggested detailed discussions on gas transit system modernization, nuclear fuel supply and waste, renewables, energy efficiency, mine safety and methane capture, which all could be discussed within the framework of the proposed agenda (reftel). Ukraine would also be prepared to brief the U.S. delegation on Ukraine's cooperation with the European Union in the area of energy, including the recently completed negotiations for Ukraine to join the European Energy Community. Kniazhnytskyi said that the Ministry of Fuel and Energy would co-chair the meetings with the Presidential Secretariat's Representative for International Energy, Bohdan Sokolovsky. End Summary.

Energy Security Working Group Meeting

12. (SBU) Ukraine's new Ministry of Foreign Affairs Ambassador-at-Large for Energy Security, Viacheslav Kniazhnytskyi, on October 9 said that the GOU welcomed the opportunity to deepen cooperation on energy-related matters with the United States at upcoming Energy Security Working Group meetings in Washington, D.C. Kniazhnytskyi said he hoped to be able to confirm shortly that October 28 would be acceptable for the Ukrainian delegation. He understood our desire to have an interagency delegation that would be able to speak with authority on the broadest range of energy issues. He said that the Ministry of Fuels and Energy was planning to co-chair the meeting, possibly at the Deputy Minister level (Deputy Minister Sergiy Pavlusha). Bohdan Sokolovsky from the Presidential Secretariat would also co-chair. Kniazhnytskyi mentioned that it would be useful to have some of the regulators at the table as well.

13. (SBU) Kniazhnytskyi thought that the proposed agenda (reftel) would be acceptable to the Ukrainian delegation, and he had a number of suggestions for discussion topics under

the agenda items:

-- Gas Transit System Modernization. He envisioned a discussion about infrastructure to include the underground storage of gas. Ukraine wants to emphasize plans for improved metering and auditing and will discuss general improvements in the legal and regulatory environment. Ukraine intends to use its recent agreement to join the European Energy Community to bring its system up to EU standards.

-- Nuclear Power Fuel Supply. Kniazhnytskyi said that diversification of nuclear fuel supply is a very high priority for Ukraine. He was positive about the prospects for licensing (done by the Nuclear Regulatory Commission) of Westinghouse fuel assemblies, including the 42 that are to be loaded in the third unit of the South Ukraine Nuclear Power Plant. He was aware of the concern of some regulators in Ukraine about using both Westinghouse fuel and Russian fuel in the same reactor, however. He emphasized that there is no bias against American fuel. Note: See para 4 for additional information on this issue. End Note.

-- Nuclear Waste. Ukraine is participating with the EU and the IAEA on a roadmap for nuclear safety and would be willing to discuss findings of a yet-to-be released Ukraine-EU-IAEA report on nuclear waste issues.

-- Nuclear Cooperation with the U.S. Ukraine is eager for additional assistance/cooperation with the U.S., including to build a fuel fabrication plant in Ukraine. Kniazhnytskyi asked that we keep in mind that Ukraine wants technology transfer along with this project.

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-- Renewables, Energy Savings, Efficiencies. Kniazhnytskyi said that Ukraine was working hard to improve energy efficiency and would be interested in a discussion of energy efficiency, possibly under the agenda item devoted to U.S. technical assistance.

-- Mine Safety. Ukraine would welcome further cooperation on mine safety, in particular methane capture.

-- Tripartite Cooperation. Kniazhnytskyi suggested the ESWG explore US-Ukraine-EU cooperation in the area of energy and possible benefits of tripartite cooperation.

14. (SBU) Note/ Additional information on Nuclear Fuel Supply: Over the last couple of months the State Nuclear Regulatory Committee of Ukraine (SNRCU), the regulator for nuclear matters in Ukraine, has been asserting a number of technical issues must be resolved before SNRCU will license the initial core load of fuel developed under the Ukraine Nuclear Fuel Qualification Program (UNFQP). This initial core loading is scheduled for January) February of 2010 and would be the culmination of 10 years and \$80 million dollars worth of DOE assistance to develop an alternative qualified nuclear fuel for Ukraine,s civilian nuclear power sector. Qualifying this alternative fuel would remove Russia,s monopoly on nuclear power plant(NPP) fuel in Ukraine and also make the Westinghouse technology more attractive with regards to competing proposals between Westinghouse and Russia regarding Ukraine,s imminent selection of a technology for a Ukraine domestic nuclear fuel fabrication facility. The SNRCU is raising concerns although the Ukraine Center for Nuclear Core Design from the Kharkiv Institute of Physics and Technology, which is the designated lead organization in Ukraine for criticality and safety documentation for this material, has submitted recommendations that this fuel meets all normally accepted criteria and should be licensed. Many of the comments by SNRCU are non-standard, inaccurate and unsubstantiated. The United States Department of Energy Attache in Kyiv is concerned that the delay in licensing this fuel for loading could be related to an attempt by factions

in the GOU to assure Russia remains Ukraine,s only source of NPP fuel. The delay could also enable Energoatom to opt out for non-performance of their contract obligations, due to commence in 2011, to purchase Westinghouse fuel for future core reloads at South Ukraine NPP. End Note.

Joining the European Energy Community

15. (SBU) Kniazhnytskyi said that Ukraine would also be prepared to brief the U.S. delegation on Ukraine's cooperation with the European Union in the area of energy, including Ukraine's commitment to join the European Energy Community. Ukraine and the EC completed negotiations on October 7 for Ukraine to join the European Energy Community, signing a memorandum specifying the terms and conditions, including a timetable, for implementation of directives that would bring Ukraine into conformity with Energy Community obligations. Ukraine gains access to Europe's energy market by becoming a member of the Community. Although the memorandum awaits ratification by Ukraine's parliament (the Rada) as well as the Ministerial Council of the Energy Community, Ukraine is expected to start work immediately to be able to meet its targets. The Memorandum regarding Ukraine's accession to the Energy Community Treaty can be found at www.energy-community.org/pls/portal /docs/426177.pdf

16. (SBU) Kniazhnytskyi also said that he thought that the long-awaited new law on issues related to the gas sector would be finalized and sent to Prime Minister Tymoshenko for approval the week of October 12. After her approval, it would be submitted to the Rada. Although this draft law had been revised many times and had been circulating from the government to the Rada for over eight years, Kniazhnytskyi thought the current, improved version had a significant chance of being brought into law.
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